

RATING REVALUATION 2017: AN INTRODUCTION



Universities UK

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What are business rates in England and Wales and why do they matter to universities?

Many of us will be familiar with paying council tax on our homes, which varies according to the type and value of different properties. Before 1990, this tax on domestic properties was called domestic rates.

Similarly, all non-domestic properties also need to pay non-domestic rates, or [business rates](#). This applies to all non-domestic buildings (not just businesses), and like council tax, different rates need to be calculated for different types of buildings according to type and value. Therefore private, public and charity sector shops, offices, pubs, warehouses, factories, holiday rental homes or guest houses, factories, classrooms, laboratories, courtrooms, railway stations, public toilets and many others also need to be valued, in order to calculate appropriate rates.

Charities and other organisations can be eligible for 80% relief or more, but all property types still need to be formally valued before any discounts or relief can be applied. Universities are often eligible for an 80% discount, but are nonetheless obliged to be valued and pay rates where appropriate. Even with charitable relief, the higher education sector had an estimated liability of £31.4 million each year between 2010 and 2017, with total liabilities estimated at £219.8 million over that period.¹

The organisation that has the responsibility for valuing properties is the [Valuation Office Agency](#) (VOA), which is an executive agency of [Her Majesty's Revenue and Customs](#) (HMRC). The methodology used by the VOA to value university buildings is set out in a practice note.

How are Rates calculated?

The easiest way for the VOA to calculate the value of different types of property is to look at the rental value of properties of a certain type (for example, all the dry cleaners in an area). Then, a view is taken on what the average value for that type of property is on the open market, per square metre, which is then applied to all properties of that category.

However, certain types of buildings or property are not readily available to rent, due to a specific or specialist design or function. For example, it would be impossible to assess the value of court rooms in England by trying to find any that are for rent in the open market.

Where rental information is not available or appropriate, the VOA values properties by looking at how much it would cost to replace a building of a certain type, also known as the Estimated Replacement Cost.

¹ Estimate provided by Gerald Eve LLP to the UUK/GuildHE Rating Revaluation Group. February 2012. (The total liability between 2010 and 2017 is a simplified calculation, and ignores *transitional relief* that comes into effect if an assessment increases or decreases beyond certain limits).

To calculate the estimated replacement cost, the VOA collects detailed information about building projects that were contracted for and/or completed within a particular time frame, from which they are able to form a view about how much it would cost to replace a particular type of building of a particular size.

The costs ascribed to different categories of buildings are called unit costs, and are updated where necessary in each Rating Revaluation Exercise. In 2010, the main categories for university buildings were:

- science research
- other science buildings (and tiered auditoria)
- other principal buildings
- temporary and portable buildings
- greenhouses and simple huttet structures
- workshops
- sports buildings
- minor buildings

NB: Student accommodation is usually exempt from business rates although holiday letting of the accommodation will be included.

The unit costs are recorded in a practice note which is distributed to sector specialists within the VOA. The Valuation Officers then assess each university and use their judgement to apply the practice note to buildings and spaces, according to function, age and condition, among other considerations to calculate the rateable value.

The rateable value is multiplied by the Uniform Business Rate (UBR), which is a centrally set multiplier to determine the total amount payable, before adjustments or other relief (for example, charitable) is applied.

Rates are also influenced by the 'decapitalisation rate' which is an adjustment that is set by government and applied to the estimated replacement cost to arrive at the rateable value. There is a lower rate decapitalisation rate for educational institutions than for private businesses, for example.

The decapitalisation rate and the UBR for the 2017 revaluation are due to be released in spring 2016.

What is a Rating Revaluation Exercise?

Business rates in the current guise were established in 1990. The unit costs that were ascribed to different building types soon became outdated, and so periodically, the unit cost for each category of building has been updated to reflect changes in the market and changes within the sector.

Refreshed data from new building projects of different types has therefore been regularly collected from the sector in line with the VOA's revaluation cycle. Unit costs were updated in 1995, 2000, 2005 and 2010 and after a slightly longer break (due to a change in legislation), this exercise is now happening again to inform updated unit costs which will apply from April 2017. At the request of the VOA, data has now been collected by UUK from the higher education sector relating to new building projects contracted or completed between 1 January 2008 and 1 April 2015 (which is known as the [Antecedent Valuation Date](#)).

In each of the previous revaluation exercises, the higher education sector has been coordinated by a UUK/GuildHE Rating Revaluation Group, which is chaired by a vice-chancellor, and enjoys a membership of Directors of Estates, Finance Directors and others from across the sector.

In earlier revaluation exercises, the negotiations on the content of a practice note have led to the agreed changes, which are written down in a memorandum of agreement, which effectively amends the practice note and is then used to calculate the rateable value for each university.

Why are revaluation exercises coordinated by a Universities UK/GuildHE group?

The UUK/GuildHE Rating Revaluation Group acts as an information sharing and coordinating group for each revaluation exercise. By having representation from [UUK](#), [GuildHE](#), [BUFDG](#) and [AUDE](#), and also representation from England, Wales and Scotland (which is separately assessed²), the group is able to understand and raise the different pressures or concerns of different types of institution in different regions. The group is one of the longest standing examples of high-level sector cooperation in the UK.

The group has therefore had two substantive tasks, which are best delivered centrally for reasons of efficiency and oversight:

A) To survey the sector for updated building cost data ('phase one'). In other sectors, each organisation receives a form from the VOA which carries a legal duty to be completed in full. For the higher education sector, the VOA permits this exercise to be carried out in a different way with UUK acting as the central collection agent. By collecting this data centrally, the sector avoids legally binding forms to comply with and the collected data can be used to support any further negotiations. This data forms the basis for the updated

² There are separate exercises in Scotland and Northern Ireland. Scottish institutions are assessed by the [Scottish Assessors Association](#) (SAA) which sets rates differently to England and Wales. Developments in the rates set by the VOA will be influential when setting the SAA rates. Northern Ireland is also separately assessed by [Land and Property Services](#). Previous English and Welsh agreements have been used as a basis for agreeing a similar scheme of valuation for universities in Scotland. This has been possible as the SAA is encouraged to harmonise valuations as much as possible. Differences in the revaluation timetable in Northern Ireland mean that it isn't possible to bring the institutions in that area into the process.

unit costs, a key part of the practice note.

B) To appoint an expert advisor to lead negotiations with the VOA ('phase two'). Business rates is a well-established industry in its own right, and is a complex and moving environment with particular terminology and methods of approach. The Group therefore needs to appoint a professional rating expert to lead negotiations on behalf of the sector, to ensure that the collective interests are properly represented and defended. This single sector voice is often a powerful asset, and it is rare for other sectors to come together with such success.

This approach has proved effective in previous revaluation exercises, with the most recent negotiations (on the 2010 Practice Note) achieving an estimated £27.3 million worth of savings for the sector, between 2010 and 2017.³

What's different about the 2017 revaluation?

The revaluation exercise is largely unchanged, in that the basic elements are the same.

First, the VOA needs to update unit costs, which requires data on newly built university buildings. This produces an initial Practice Note. The sector then appoints an agent to challenge any assumptions made by the VOA based on the build cost data, and also on any 'allowances' or discounts that should be applied to certain types of buildings or features. Finally, once negotiations are complete, an agreed Practice Note, informed by a robust, scrutinised evidence base that has had input from both parties, is published.

For the 2017 exercise, the VOA is looking to update procedures, which affect all sectors, not just higher education. At the time of writing (September 2015), UUK have had indications that various historical allowances are being revisited by the VOA, and also the structure of the Practice Note is being modernised. In earlier revaluation exercises, there have only been incremental changes on marginal issues, as opposed to a wider update of the Practice Note, signalling a change in the VOA's approach. The VOA has also allocated less time to the development of the Practice Note than in previous years.

In previous Rating Revaluation Exercises, the expert-led negotiations have resulted in amendments to original Practice Notes, which were first produced by the VOA. The agreed amendments to the Practice Note were reflected in a [Memorandum of Agreement](#) and for the current 2017 exercise, it is hoped that it will possible for a similar document to be produced.

Previous exercises have been funded by [HEFCE](#), but due to cuts in their budget, the Council is no longer able to provide financial assistance. UUK is committed to continue to deliver the exercise, recognising that the benefits of significant

³ Based on an estimate provided by Gerald Eve LLP to the UUK/GuildHE Rating Revaluation Group February 2012 in an unpublished briefing paper.

economies and a consistent approach, on which all higher education institutions can rely. UUK has therefore agreed to provide resource to project manage both phases of the exercise, and to provide a secretariat role to the UUK/GuildHE Group. The funding of an expert rating agent in phase two of the exercise will now be provided by higher education institutions via funds from their associations: AUDE and BUFDG. UUK will continue to provide support and project management resources and will contract with the adviser during the second phase.

As there are some potentially substantial changes to the underlying methodology and structure of the 2017 Practice Note, there is a considerable risk that liabilities may increase across the sector, and may burden certain types of institution more severely than others. There is therefore a heightened duty to ensure that any changes are understood and challenged if found to be inappropriate or unduly unfavourable.

Initial indications are that the university sector will experience increases in Business Rate liabilities. To assess the likely extent of these increases, we require the expertise of a professional rating agent. Having explored potential funding options, it is important that the sector mobilises and cooperates to procure expert advisors to assess the potential impact of any changes, and to lead negotiations with the VOA.

An Invitation To Tender to agents was issued on 20 August 2015, which concluded with the agreement to appoint Gerald Eve LLP on 21 September 2015.

What's happened so far, and what comes next?

The UUK/GuildHE Rating Revaluation Group decided a plan of action in early 2015 (latest version found in annexe three), and contacted all higher education institutions to request information on new build projects signed or completed between January 2008 and April 2015. This 'phase one' has been more successful than in previous revaluation exercises, in that UUK received data on more projects from a larger number of institutions than ever before. This means that the VOA has current, accurate, average building costs of each category of university building.

These data have been delivered to the VOA (June 2015), and are currently being analysed and used to produce an initial Practice Note. UUK has engaged with the VOA over recent months in order to align project management milestones leading to the initial Practice Note. UUK has also had informal discussions during the summer with expert Rating advisors to gain initial views.

The VOA will release the Practice Note to local valuation offices in September 2015. The appointment of an expert rating advisor and the release of the Practice Note begins 'phase two' of the revaluation exercise.

Elements of the Practice Note will be tested against available evidence and influenced where appropriate to minimise impact on the sector. This will continue until agreement is found, or the VOA completes the revaluation exercise in 2016 (date to be confirmed).

Finally, valuation officers in each region of England and Wales will use the Practice Note to run assessments of each university building in their area, and assign rateable values accordingly, and multiply by the UBR to arrive at a basic bill (set in spring 2016). During 2016 (the date is to be confirmed) institutions will know how much they should budget for business rates from April 2017. However, there may be a period to smooth the change, called 'transitional rate relief', which is set by government.

Each university has the right to appeal against the way a valuation officer applies the Practice Note, and there is always room for interpretation. Many institutions have retained rating advisors to launch appeals; however the ambition of the pooled resources and single negotiating voice via the UUK/GuildHE Ratings Revaluation Group is to minimise the need for institutions to submit appeals.

Regular updates will be provided as the project progresses and more information is available upon request from Universities UK.

Annexe one: key contacts

For general questions and updates, please contact the project management team at Universities UK:

- Mary Lambe, Senior Policy Lead. Mary.Lambe@universitiesuk.ac.uk
- Max Hastings, Policy Researcher. Max.Hastings@universitiesuk.ac.uk

Other Group members:

- Professor Geoffrey Petts, Vice-Chancellor of University of Westminster. Chair of the UUK/GuildHE Rating Revaluation Group.
- Alex Bols, Deputy CEO at GuildHE, GuildHE representative.
- Mike Davies, Finance Director at Bangor University, BUFDG representative.
- Diana Hampson, Director of Estates at the University of Manchester, AUDE representative.
- Angus Donaldson, Director of Estates, University of Aberdeen, Scotland representative.
- Nick Roalfe, Director of Estates Facilities, Imperial College London.
- Derry Caleb, Director of Estates & Facilities Management, University of Surrey.
- Ian Millar, Head of Buildings, University of Exeter.
- Derek Watson, Quaestor and Factor (Chief Operating Officer), University of St Andrews.
- Rob Simpson, Head of Property, University of Cambridge.
- Alan Cooke, Deputy Vice-Chancellor Corporate Resources, University for the Creative Arts.

Observer:

- Karel Thomas, Executive Director, Executive Director BUFDG and PHES, funding representative.

Annexe two: glossary of terms

Antecedent Valuation Date (AVD): This is the date used when updating rateable values to act as a 'snapshot' of the value of buildings. A new AVD is used for each Revaluation Exercise, and is 1 April 2015 for the 2017 Rating Revaluation.

AUDE: [The Association of University Directors of Estates](#).

BUFDG: [The British Universities Finance Directors Group](#).

Business rates: Business rates are a form of tax assigned to almost all types of non-domestic building in the UK. This includes most university buildings. Different types of buildings pay different amounts of rates, usually based on average rental value, or on the estimated cost of an identical replacement, where rental information is not available or appropriate.

Building categories: University Estates are split into different categories of building, each with a Unit Cost, which are informed by the estimated cost to replace each type of building.

Decapitalisation rate: This is an adjustment that is applied when calculating the rateable value and is applied to the estimated replacement cost to arrive at the rateable value. It is set by central government and there is a lower rate for educational institutions. The decapitalisation rate for the 2017 revaluation is due to be released in Spring 2016.

Estimated replacement cost: When the VOA calculates the values of different types of buildings; they prefer to use the rental value as a starting point. Rental value is not always available, particularly for specialist types of building space, such as for universities. Therefore, information is collected about the average cost to build buildings of different types. The output from these calculations is the estimated replacement cost per square metre for each category of building.

HESPA: [Higher Education Strategic Planners Association](#).

Valuation officers: The VOA has officers across England and Wales, who are tasked with visiting individual sites and calculating business rates. For universities, they will apply the Practice Note, using their judgement as to how it should relate to each case.

Memorandum of Agreement: In previous Rating Revaluation Exercises, the expert-led negotiations have resulted in amendments to original Practice Notes, which were first produced by the VOA. The agreed amendments to the Practice Note were reflected in a [Memorandum of Agreement](#) and for the current 2017 exercise, it is hoped that it will possible for a similar document to be produced.

PHES: [Professional HE Services Ltd](#) - umbrella company for membership organisations in Higher Education: currently BUFDG, AUDE and HESPA.

Practice Note: A Practice Note is a document which, once agreed, contains all the Unit Costs for different types of building or space and also details any allowances (or

discounts) and indexes (such as for regional price variations). The Practice Note is used by local agents of the VOA when assessing university estates.

Transitional rate relief: [Previously](#), following a revaluation, the government has introduced a transitional relief scheme so as to not suddenly increase rates liabilities overnight, and to allow businesses and organisations to plan and manage an adjustment. It is introduced by government at its discretion, and may not be announced until closer to when the new rates notionally apply in 2017.

Uniform Business Rates (UBR): a centrally set multiplier, by which the basic bill was calculated. It is expected to be announced in Spring 2016

Unit costs: Unit costs are the value assigned by the VOA to each square metre of a particular type of building or space. Unit costs are informed by regular surveys of new university buildings, which are used to calculate average building costs for each building category.

Valuation Office Agency (VOA): the [Valuation Office Agency](#) is an executive agency of Her Majesty's Revenue and Customs. The VOA is responsible for the setting and application of Business Rates to university buildings, and is the agency with which any negotiations take place. The VOA produces Practice Notes.

Annexe three: project timeline

1. Planning phase

- 30 September 2014: VOA approach UUK to initiate the revaluation exercise.
- 22 October 2014: HEFCE confirm withdrawal of financial support to the Rating Revaluation Exercise.
- 27 November 2014: UUK/GuildHE Ratings Revaluation Group ('the Group') reconvene to review membership and terms of reference and to share knowledge.
- 17 December 2014: VOA meeting with UUK and Chair to decide working arrangements and plan of action.
- 19 January 2015: Group reviews VOA updates and decides whether to continue supporting the exercise, and confirms preferred approach.
- 24 February 2015: Chair and UUK begin formal talks with VOA, confirming UUKs ability to deliver the data-collection phase and to conform to the reduced timeframe.

2. Phase One – data collection

- 13 March 2015: UUK begins awareness raising activities, ahead of the data-collection exercise.
- 10 April 2015: Data-collection spreadsheet and accompanying guidance receives approval from both VOA and an expert rating agent.
- 13 April 2015: Data-collection exercise is formally launched with a survey distributed via AUDE and GuildHE membership.
- 16 June 2015: Data collection complete and data sent to VOA.

3. Phase Two – iterative negotiations

- 9 July 2015: First and partially drafted Practice Note received from VOA.
- 22 July 2015: Group confirms that Agent engagement for negotiations a necessity, in light of the substantial changes proposed in the Practice Note.
- 27/28 July 2015: UUK hold meetings with representatives a range of expert Rating agencies. Confirmation is received that seeking pro-bono work on behalf of the sector is not a viable option, and that increases in liabilities can be expected.

- 12 August 2015: Funding confirmed from BUFDG, AUDE and HESPA via PHES.
- 20 August 2015: Invitation To Tender is launched.
- 7 September 2015: Deadline for first round of responses to the Invitation To Tender.
- 17 September 2015: Deadline for second round of responses to the Invitation To Tender.
- 21 September 2015: Gerald Eve LLP is appointed and will begin modelling potential impact of the new Practice Note on the sector, and will begin evidence-based negotiations on the contents of the Practice Note with the VOA. Negotiations could potentially continue until late 2016.
- September 2015: A complete initial Practice Note received from the VOA, upon which potential impact of changes to the Practice Note can be modelled.
- Spring 2016: ***[Anticipated]*** VOA is informed of final adjustments to the application of the Practice Note, particularly with regards to the Decapitalisation Rate and Uniform Business Rate.
- Autumn 2016: ***[Anticipated]*** The VOA confirm projected forecasts to HMRC and HM Treasury.
- 1 April 2017: ***[Anticipated]*** The new business rates come into effect. There has previously been a transition period over several years when Rates are adjusted, and it is likely that this practice will continue.

This publication has been produced by Universities UK (UUK), the representative organisation for the UK's universities. Founded in 1918, its mission is to be the voice of universities in the UK, providing high quality leadership and support to its members to promote a successful and diverse higher education sector. With 132 members and offices in London, Cardiff (Universities Wales) and Edinburgh (Universities Scotland), it promotes the strength and success of UK universities nationally and internationally.

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